

No. 6/21/DPM

Jakarta, April 26, 2004

CIRCULAR LETTER

To

ALL BANKS, MONEY MARKET BROKERAGE, AND

CAPITAL MARKET BROKERAGE IN INDONESIA

Concerning: The Procedures of Buying and/or Selling of Government Securities in Secondary Market by Bank Indonesia in Relation to Open Market Operation.

---

In relation to the stipulation of Bank Indonesia Regulation Number 4/9/PBI/2002 dated November 18, 2002 concerning the Open Market Operation (The State Gazette of the Republic of Indonesia of 2002 Number 126, The Supplement to the State Gazette Number 4243) as amended by Bank Indonesia Regulation Number 6/4/PBI/2004 dated February 16, 2004 (The State Gazette of the Republic Indonesia of 2004 Number 17, Supplement to the State Gazette Number 4365), and Bank Indonesia Regulation Number 6/2/PBI 2004 dated February 16<sup>th</sup>, 2004 concerning Bank Indonesia – Scripless Securities Settlement System (The State Gazette of the Republic of Indonesia of 2004 Number 15, Supplement to the State Gazette Number 4363), it is deemed necessary to stipulate the procedures for buying and/or selling of Government securities by Bank Indonesia in the Secondary market as follows:

I. GENERAL PROVISIONS

The terminology used in this Circular Letter has the following meanings:

1. Bank is a commercial bank as defined in Act Number 7 of 1002 concerning Banking, as amended by Act Number 10 of 1998, conducting conventional business operations.

2. Open .....

2. Open Market Operations, hereinafter referred to as OMOs are transactional operations conducted by Bank Indonesia in money market operations with banks with other parties for the purpose of monetary control.
3. Buying and/or Selling of Government Securities is an act of buying and selling of SUN by Bank Indonesia in the secondary market in order to conduct OMOs through auction and/or non-auction mechanism.
4. Government Securities, hereinafter referred to as SUN is a securities in a form of a blanket lien as defined in Act Number 24 of 2002 concerning Government Securities, which consists of Treasury Bill and Government Bond.
5. Treasury Bill is a SUN with a discount interest payment with a maturity time up to 12 (twelve) months.
6. Government Bond is a SUN with a coupon and/or discounted interest payment of more than 12 (twelve) months time period.
7. Secondary Market is a trading activity of SUN that has previously been sold in the Primary Market.
8. Brokerage is a money market or capital market brokerage complying with the applicable provisions.
9. Stop-out Rate, hereinafter referred to as SOR, is a discount or yield rate resulted in a auction in order to reach a specific SUN quantity to be bought/sold by Bank Indonesia.
10. Bank Indonesia-Real Time Gross Settlement System, hereinafter referred to as BI-RTGS System is an electronic fund transfer system between the members of BI-RTGS in Rupiahs currency, with real time settlement per individual transaction.

11. Bank-Indonesia Scripless Securities Settlement System, hereinafter referred to as BI-SSSS is a transactional facility with Bank Indonesia including the administration and an electronic Administration of Securities with on-line connection between Members, Administrator, and BI-RTGS System.
12. SUN Trading Account is a securities account used as a record of SUN ownership that can be traded and maintained within the BI-SSSS by Central Registry c.q. Money Market Settlement Division of the Directorate of Monetary Management of Bank Indonesia.
13. SUN Transactional Settlement is a settlement consists of SUN securities settlement and fund settlement.
14. SUN Securities Settlement is a transfer of SUN ownership from the seller to Bank Indonesia, or SUN ownership transfer from Bank Indonesia to the buying party.
15. Fund Settlement is a transfer of fund between owners of Rupiah demand deposit in Bank Indonesia through BI-RTGS System functions as a realization of Securities transactional settlement through BI-SSSS.
16. Settlement Price is a proposed price paid by the buyer to the seller through a auction or non-auction mechanism which consists of a clean price added by accrued interest.
17. Delivery Versus Payment, hereinafter referred to as DVP, is a settlement of Securities transaction by Securities Settlement through BI-SSSS which is conducted simultaneously with Fund Settlement in Bank Indonesia through BI-RTGS System.
18. Central Registry is Bank Indonesia conducting its function as the administrator of Securities for the Bank, Sub Registry and any other parties approved by Bank Indonesia.

## II. The Criteria...

## II. THE CRITERIA FOR SUN AND AUCTION BIDDERS

A. The criteria for SUN that is available for transaction with Bank Indonesia.

1. SUN of the intended Bank is recorded in a trading account at the Central Registry;
2. is not placed as collateral; and
3. SUN types and series are in comply with the provisions stipulated by Bank Indonesia.

B. The Criteria for Bidder

1. The parties allowed to conduct buying and/or selling of SUN with Bank Indonesia, hereinafter referred to as Bidders, are:
  - a. Bank, representing itself;
  - b. Brokerage, representing a Bank.
2. Brokerage as referred to in point 1.b is:
  - a. a money market brokerage appointed by Bank Indonesia as the brokerage in OMO transaction;
  - b. capital market brokerage participating in SUN auction in the primary market based on the applicable Decision of the Minister of Finance of the Republic of Indonesia;
3. The Bidder as referred to in number 1 may perform a buying and/or selling of SUN with Bank Indonesia under the following conditions:
  - a. not liable to sanction of temporary suspension in OMO transactional activities; and or
  - b. not liable to sanction of temporary suspension or permanently closed as a participant of BI-SSSS.

4. A Bank .....

4. A Bank as a Bidder or represented by a Brokerage must obtain the following:
  - a. a sufficient amount of balance of account of SUN securities in the Central Registry for the purpose of SUN Securities Settlement;
  - b. a sufficient amount of balance of account of Rupiahs demand deposit in Bank Indonesia for the purpose of Fund Settlement.

### III. THE PROCEDURE FOR BUYING AND/OR SELLING OF SUN

#### A. Buying or Selling of SUN Through an Auction

##### 1. Auction Operation

- a. The auction for buying and/or selling of SUN shall be conducted on a working day selected by Bank Indonesia.
- b. Bank Indonesia shall announce the plan for auction to buy and/or sell SUN at least on the day of the Auction, through the facility of BI-SSSS and/or the Money Market Information Center (PIPU) and/or other facilities selected by Bank Indonesia.
- c. The announcement for buying and/or selling of SUN contains at the least, the information on the date for bidding, the window time, quantity target, and the settlement date.
- d. On the day of SUN Bidding, the participants may offer a bid for SUN to the Money Market Operational Division of the Directorate of Monetary Management of Bank Indonesia during the window time through BI-SSSS facility.
- e. SUN auction offer as referred to in letter d includes:
  - 1) A minimum quantitative amount of 1,000 ( a thousand) units or Rp. 1,000,000,000,00 (one billion Rupiahs), and for  
the rest of .....

the rest of them, a multiplication of 100 (a hundred) units or Rp. 100,000,000,00 (one hundred million Rupiahs);

2) Yield offer is proposed by a multiplication of 0,01% (one hundredth percent);

f. The auction bidder is responsible for the validity of the proposed auction offer.

## 2. The Decision for Auction Winner

a. The determination of auction winner shall use the SOR system as shown in the example of the calculation to decide the auction winner of SUN in Appendix 1.a and 1.b.

b. Bank Indonesia determined SUN auction winner by the following provisions:

### 1) SUN Buying Auction

i. If the offered yield is higher than SOR, the auction bidder shall acquire all the proposed quantity of SUN;

ii. If the offered yield is the same as the SOR, the auction bidder shall acquire all or some of the proposed quantity of SUN based on proportional calculation.

### 2) SUN Selling Auction

i. If the offered yield is lower than the SOR, the bidder shall acquire all the proposed quantity of SUN;

ii. If the offered yield is the same as the SOR, the bidder shall acquire all or some of the proposed quantity of SUN based on proportional calculation.

- c. Bank Indonesia has the right to adjust the realization of the amount of SUN as a result of the auction or cancel all operations in a SUN auction if the yield offered is considered unnatural.

### 3. Auction Result Announcement

- a. Bank Indonesia shall announce the result of SUN auction through the facilities of PIPU and/or other facilities selected by Bank Indonesia on the day of SUN auction within the latest time of 17.00 WIB, in the form of the total quantity of auction and the weighted average of the auction winner yield per series.
- b. Bank Indonesia shall announce the result of a SUN auction to the SUN auction winners using the facility of BI-SSSS at the latest of 17.00 WIB in the form of the quantity and price of SUN settlement.
- c. In the case of Bank Indonesia cancels a SUN auction as referred to in point 2.c, Bank Indonesia shall announce the cancellation through the facility of BI-SSSS and/or PIPU and/or other facilities selected by Bank Indonesia, on the day of SUN auction execution at the latest of 17.00 WIB.

### B. Non-Auction Buying and/or Selling

- 1. SUN buying and/or selling through a non-auction process shall be executed bilaterally between Bank Indonesia and a Bank or Bank Indonesia and a Brokerage through the facility of RMDS or Bloomberg or any other facilities selected by Bank Indonesia.
- 2. Bank Indonesia shall contact the Bank or the appointed brokerage by Bank Indonesia to participate in the bilateral buying and/or selling of SUN.

3. If a .....

3. If a transaction is closed, the transactional settlement of SUN Securities shall be conducted through a menu on SSTS in BI-SSSS.

#### IV. TRANSACTIONAL SETTLEMENT OF SUN BUYING AND/OR SELLING

1. SUN transactional settlement shall be operated under the principle of DVP and based on the gross to gross settlement system.
2. The calculation of SUN transactional settlement is based on the formula as referred to in Appendix 2.
3. SUN transactional settlement shall be executed within the maximum of 3 (three) working-days after the date of the transaction (T+3).
4. In the case of the balance of SUN Securities owned by the selling Bank is not sufficient for SUN Securities Settlement based on the provision on transactional period in the BI-SSSS queuing system, the system will automatically cancel the SUN auction transaction.
5. In the case of the balance of demand deposit account in Rupiahs of the buying Bank is insufficient for the Fund Settlement until the cut off warning time of BI-RTGS system, the system will automatically cancel the SUN auction transaction.
6. The cancellation of SUN transaction as referred to in number 4 and 5 shall impose the intended Bank under sanction.
7. SUN transactional settlement shall be conducted through BI-SSSS with the procedure stipulated in BI-SSSS Circular Letter.

#### V. IMPOSITION OF SANCTIONS

1. In the case of a cancelled SUN transaction as referred to in number IV.4 and IV.5, the liable sanctions are as follows:
  - a. A written warning, with a carbon copy sent to:

1.) The related .....



- 1) The related Directorate of Bank Supervision, if the sanction is imposed on a Bank whose main office is within the jurisdiction of KPBI; or
  - 2) The local KBI-Bank Supervisory Team, if the sanction is imposed on a Bank whose main office is located within the jurisdiction of KBI, and
- b. The obligation to pay 1/1000 (one thousandth) from the nominal value of the cancelled SUN transaction or a maximum of Rp. 1,000,000,000,00 (one billion Rupiahs), and
  - c. A Temporary suspension to participate in OMO activities for 5 (five) working days if the bidder has been given a written warning for a cancelled transaction of OMO activity for the third time within a period of 6 (six) months
  - d. The notification of a written warning as referred to in point 1.a and the notification of a temporary barring from OMO activities as referred to in point 1.c shall be executed 1 (one) day after the cancellation of the transaction.
2. The sanction in a form of a fine as referred to in point 1.b shall be executed by debiting the intended Bank Demand Deposit Account in Rupiahs at Bank Indonesia 1 (one) working day after the cancellation of the transaction.

## VI. CLOSING PROVISION

The provisions in this Circular Letter shall come into force on April 26<sup>th</sup>, 2004.

For the public to be informed, it is ordered that this Circular Letter be promulgated in the State Gazette of the Republic of Indonesia.

Kindly be informed.

BANK INDONESIA,

Signed

BUDI MULYA

DIRECTOR OF MONETARY MANAGEMENT